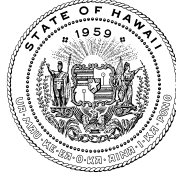


JOSH GREEN, M.D.
GOVERNOR
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DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES | KA 'OIHANA LOIHELU A LAWELAWĒ LAULĀ
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WRITTEN TESTIMONY
OF
KEITH A. REGAN, COMPTROLLER
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
TO THE

COMMITTEE ON GOVERNMENT OPERATIONS

MARCH 14, 2023, 3:00 PM
CONFERENCE ROOM 225 AND VIA VIDEOCONFERENCE, STATE CAPITOL

H.B. 565 HD1

RELATING TO STATE SELF-INSURANCE AGAINST PROPERTY AND CASUALTY
RISKS.

Chair McKelvey, Vice Chair Gabbard and Members of the Committee, thank you for the opportunity to testify on H.B. 565 HD1.

The Department of Accounting and General Services (“Department”) provides the following **comments** on implementing a statewide self-insurance program to cover all lines of insurance coverages and eliminating the Comptroller’s discretion to purchase casualty and property insurance.

The Department appreciates the general intent to save the State the cost of its

annual insurance premiums by establishing and administering self-insurance coverage but has serious and grave concerns with the immediate conversion to a fully self-insured program.

As testified last session, without a formal and comprehensive study on the risks and costs involved with such an undertaking, we may be compromising the State's ability to manage risk exposure. The legislature concurred and an appropriation of \$150,000.00 in general revenues was authorized in Act 248, SLH 2022, for further analysis and consultation of a self-insurance program. A formal and comprehensive study on the risks and costs involved with immediate conversion to a fully self-insured program to the current Department insurance program is underway and estimated to be completed by September 2023.

The current statute allows for both insurance purchases and self-insurance as options, depending on insurance market conditions. It would be prudent to preserve the options to purchase policies should market conditions improve or if a State captive is implemented as reinsurance policies will be required to be purchased by the captive. If a captive option is implemented the current statute authorizes the risk management office to utilize a captive.

The following amendments to HRS 41D will be needed to implement the operation of the captive. These amendments will protect the State against catastrophic losses, minimize the total cost of insuring risk and provide the ability to meet other insurance requirements. In addition, risk management considerations such as those related to FEMA reimbursement, procurement/financing agreements and credit rating agencies analysis on governance practices will be addressed.

Amendments for your consideration:

§41D- Establishment of the captive insurance program. (a) The comptroller, through the risk manager, shall establish a captive insurance program, pursuant to article 19 of chapter 431, owned and controlled by the state, solely to insure the potential losses, exposures, and risks of state agencies that are subject to insurance and self-insurance pursuant to this chapter, including, but not limited to, executive, legislative, and judicial branch state agencies, and state institutions of higher education.

- (b) The comptroller, through the risk manager, shall:
- (1) Approve the captive insurance program's business plan;
 - (2) Periodically determine, reevaluate, and revise:
 - (a) The potential losses, exposures, and risks that will be insured through the captive;
 - (b) The nature and scope of insurance coverage or coverages to be provided through the captive insurance company; and
 - (c) The method by which coverage and coverages are to be extended, and contributions are to be paid and collected, including, but not limited to, premiums and assessments;
 - (3) Establish the amount of the exposure for each line of insurance coverage, as well as the premium amounts for each agency;
 - (4) Establish a process through which premiums may be collected directly from each agency;
 - (5) Determine the initial and continuing capital requirements to form and maintain the captive insurance program, including, but not limited to, the amount and funding source for the initial and continuing capital, establishing a process through which premiums may be collected directly from each agency or from other sources allowable under applicable laws and rules;
 - (6) Establish an investment policy pursuant to section 41D-5 or establish a policy that is authorized by the director of finance or is otherwise allowable under applicable laws and rules;
 - (7) Approve regulatory filings by the state on behalf of the captive insurance program in compliance with applicable laws and rules of the department of commerce and consumer affairs;
 - (8) Be responsible for the day-to-day operations and responsibilities of the captive insurance program, including implementation claim procedures;
 - (9) Perform other duties or actions necessary and provide administrative support for the implementation, operation, and administration of the captive insurance program;
 - (10) Prepare or assist in the preparation of financial statements and reports of financial condition of and maintain or assist in maintaining accounting for the captive insurance program; and
 - (11) Facilitate contracts, agreements, and procurements for the captive insurance program to effectuate this section, including, but not limited to, financial consultants; investment consultants; insurers and/or reinsurers; actuaries; auditors; accountants; brokers; adjusters; attorneys; third party administrators; and other contractors as necessary to carry out the duties and responsibilities

of establishing, implementing, and administering the captive insurance program, which shall be funded through the risk management fund or the assets of the captive insurance program;

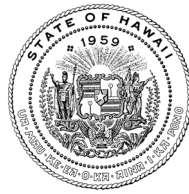
- (c) Funds received by the captive insurance program must be used exclusively for the purposes and activities set forth in this section, and must be invested and reinvested in the name of the captive insurance program by the state in accordance with the purpose of this section;
- (d) The captive insurance program described in subsection (a) shall be subject to, and shall comply with, applicable laws and rules for captive insurance companies;

Please note that additional statutory sections will be required to establish a trust fund and the applicable investment authorization.

In summary, we appreciate the intent of this bill for total self-insurance as a cost-saving measure but, as mentioned, we have serious concerns regarding the risks and costs to the State without the benefit of further analysis and consultation. As such, we respectfully request that this measure be deferred until the study is complete.

Thank you for the opportunity to testify on this matter.

JOSH GREEN, M.D.
GOVERNOR



LUIS P. SALAVERIA
DIRECTOR

SABRINA NASIR
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
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BUDGET, PROGRAM PLANNING AND MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT

WRITTEN ONLY

TESTIMONY BY LUIS P. SALAVERIA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON GOVERNMENT OPERATIONS
ON
HOUSE BILL NO. 565, H.D. 1

March 14, 2023
3:00 p.m.
Room 225 and Videoconference

RELATING TO STATE SELF-INSURANCE AGAINST PROPERTY AND CASUALTY RISKS

The Department of Budget and Finance (B&F) offers comments on this bill.

House Bill No. 565, H.D. 1, amends Chapter 41D, HRS, and does the following:

1) establishes the State Self-Insurance Against Property and Casualty Risks Special Fund (SSIAPCRSF) to be administered by the Comptroller to provide the State with self-insurance against the State's property and casualty risks; and 2) appropriates an unspecified amount of general funds to the Department of Accounting and General Services for FY 24 to be deposited into the SSIAPCRSF for the purposes of the bill.

B&F strongly recommends that an actuarial study be conducted prior to implementing a Statewide self-insurance mechanism in order to obtain informed estimates of the potential coverage, insurance expenses and costs to administer the SSIAPCRSF and to maintain adequate fund reserve. The proposed conversion from a third-party insurance to a fully self-insured coverage against the State's property and casualty risks is a major undertaking that may have long-term implications and exposure to financial risks for the State, so a careful analysis is needed.

Thank you for your consideration of our comments.